MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2018/2019

DTX5028 – TAXATION 2

(All sections / Groups)

6 MARCH 2019
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 10 pages with 5 Questions only.

2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

A Malaysian resident company, Tropikal Sdn Bhd (Tropikal) commenced its business since 2010. The company manufactures helmets. Tropikal closes its accounts on 31 December each year. The financial results for the year ended 31 December 2018 are as follows:

Tropikal Sdn Bhd
Statement of Comprehensive Income
for the year ended 31 December 2018

	Note	RM'000	RM'000
Sales			18,000
Less: Cost of sales			(7,600)
Gross profit			10,400
Add: Other income			
Interest	1	45	
Dividend (single tier)		63	
Rental		28	136
			10,536
Less: Expenses			
Remuneration	2	3,400	
Employees Provident Fund contributions	3	680	
Lease rental	4	400	
Entertainment	5	165	
Leave passage	6	119	
Depreciation		120	
Bad and doubtful debts	7	86	
Insurance	8	180	
Provision	9	250	
Employees benefit	10	80	
Arts and cultural activity	11	859	
Training allowance	12	72	
Repairs and renewals	13	68	
Legal and professional fees	14	160	
Loss on sale of asset		21	
Advances to employees		10	(6,670)
Net profit			**3,866**

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Notes to the account for the year ended 31 December 2018:

1. Interest

Interest income is from fixed deposits in CIMB.

2. Remuneration

Employees remuneration include the following:

	Particulars	**RM'000**
a)	Employees' salaries (including salaries of RM108,000 for three disabled employees)	2,812
b)	Bonus	500
c)	Travelling allowance from home to office	88
	Total	**3,400**

3. EPF contribution

Contribution is at 20% of gross remuneration.

4. Lease rental

Company paid the following rental expenses throughout the year:

a)	Car amounted to RM3,000 per month used by marketing executive (cost is RM145,000 when new)
b)	Lorry amounted to RM47,000.
c)	Passenger vehicle for RM52,000 (cost is RM200,000 when new)

5. Entertainment

The entertainment expenses comprise the following:

a)	Dinner for oversea suppliers and customers of RM30,000.
b)	Light breakfast for employees and potential customers during one week events amounted to RM14,400 and RM11,900 respectively.
c)	Disburse RM66,000 to marketing and sales staff for entertaining customers.
d)	Provide promotional samples of the company's products amounting to RM24,500.
e)	Redemption vouchers given for purchases amounted to RM18,200 to customers.

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6. Leave passage

Tropikal incurred a sum of RM72,000 for a family day in Sarawak which involves the employer, employees and their spouses. The sum comprises air fares of RM40,000 and accommodation of RM32,000.

Another expense incurred is a leave passage to Tokyo, Japan amounted to RM47,000 for the director.

7. Bad and doubtful debts

Bad and doubtful debts incurred during the year are as follows:

		RM'000
a)	Bad debt written off on a debt restructuring scheme	18
b)	Specific provision of bad debt	22
c)	General provision of bad debt based on percentage of sales	27
d)	Debtor has died without leaving any assets from which the debt can be recovered	32
e)	Trade debt taken over which later was collected in full	(13)
	Total	**86**

8. Insurance

Following are insurance expenses incurred during the year:

a)	Company paid a premium for fire and flood policy of RM57,000 on the company's property.
b)	Tropikal purchased a 'keyman' life policy for the managing director with annual premium of RM123,000.

9. Provision

a)	Donation in kind of RM120,000 was made to state library facilities.
b)	Another RM130,000 of cash donation was made to an approved orphanage house.

10. Employees benefits

	Particulars	**RM'000**
a)	Payment of mobile phone bills in the name of employee.	54
b)	Deposits for water and electricity bills.	26
	Total	**80**

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11. Arts and cultural activity

Tropikal made a contribution of RM550,000 on sponsoring arts and cultural performances approved by the Ministry of Tourism and Culture Malaysia in April 2018.

Two months later, the company sponsored foreign arts for RM309,000.

12. Training allowance

The company participate in Skim Latihan 1Malaysia Programme (SL1M) approved by the Economic Planning Unit under the Prime Minister's Department of Malaysia to unemployed graduates (50 candidates joined the programme for 3 months). Total of RM72,000 was spent for:

a) Monthly training allowance for RM1,000 for each trainees.
b) Food, travelling and accommodation allowances.
c) Fees to instructors to conduct soft skills training.
d) Training expenditure

13. Repair and renewal

The company had incurred the following expenses during the year:

	Particulars	**RM'000**
a)	Replacing an unsafe pipe at a factory	12
b)	Extension to company's existing factory	35
c)	Renewal of roadtax and insurance for director's personal car	6
d)	Replacing an old-functioning CCTV with the latest design	15
	Total	**68**

14. Legal and professional fees

	Particulars	**RM'000**
a)	Damages paid by company for goods sold at a lower price.	65
b)	Tax appeal	33
c)	Statutory audit fees	11
d)	Tax filing fee	15
e)	Guarantee and commitment fees	24
f)	Secretarial fee	12
	Total	**160**

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15. Other information

For the year assessment 2018, the company is claiming capital allowances of RM153,000 on its qualifying plant and machinery. Unabsorbed losses brought forward amounted to RM134,000.

Required:

Based on the information given, compute the chargeable income of Tropikal Sdn Bhd for the year of assessment 2018.

Note: i. Your computation should start with the net profit before taxation figure and follow the description used in the profit and loss account, and where applicable the description used in the notes to the accounts. In making your tax adjustments to the entries, you should indicate 'Nil' where no adjustments are made or are not required. You do not need to explain the adjustments that you are making. ii. Round up all figures to the nearest thousand.

(Total: 20 marks)

QUESTION 2

PART A

Mulawana Sdn Bhd acquired following assets throughout its business since 2010. All assets were in use for the purposes of the business at the end of the financial year ended 31 December 2018:

a)	Company acquired plant and machinery on April 2014 for RM250,000. Cost of preparing the site for the installation of the plant and machinery is RM40,000.
b)	Company acquired heavy machine worth RM320,000 on January 2015. Additional cost incurred for preparing the site for the installation of the plant and machinery of RM35,000.

Requirement:

Compute the Qualifying Plant Equipment (QPE), Capital Allowance (CA) and Residual Expenditure (RE) for respective individual situation for year of assessment 2018.

(12 marks)

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PART B

Melanie is a sole proprietor of MEL Enterprise. The company acquired two cars which had been wholly used in her trading business since the date of commencement on January 2015 as follows:

	Car 1 (new car)	Car 2 (second hand car)
Acquisition date	January 2015	January 2017
Purchase price	RM115,000	RM65,000
Cash deposit	RM13,000	RM3,000
Trade-in value of the car	RM70,000	RM25,000

On 30 September 2018, Melanie traded in both of the cars for a new one to be wholly used in her business.

Requirement:

Compute the balancing charge/allowance for Car 1 and Car 2 in year of assessment 2018. (8 marks)

(Total: 20 marks)

QUESTION 3

PART A

Ms. Nayra, a Malaysian citizen sold a residential property on 10 March 2018 for RM450,000. She used the money to settle her mortgage loan including interest on loan of RM5,800.

Ms. Nayra acquired the property on 20 June 2014 for RM370,000. Upon acquisition, she incurred a stamp duty of RM4,200 and legal fees of RM2,950. A tragedy happened while she holding the property where her kitchen burnt because of fire then she received an insurance compensation of RM11,430.

After few years, Ms. Nayra facing some issues which made her decided to sell the property and accepted a deposit of RM10,000 from a potential buyer. However, the deal did not go through and the deposit is forfeited.

Ms. Nayra then engaged an agent to sell the property for RM450,000. The incidental cost on disposal was valuation fee of RM7,210 and advertisement of RM1,000. The brokerage fee was RM4,900.

Requirement:

Compute RPGT payable in relation to the Real Property Gain Tax Act 1976. (10 marks)

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PART B

Sketches Sdn Bhd is a Malaysian resident company operating in Kelantan. The company engaged with a new project of developing an art gallery which costs RM3 million. The followings are the payments made by Sketches Sdn Bhd:

Date	Payments	Amount (RM)
18 March 2018	Payment made to Russian resident company, Crozia Ltd for:	
	• Cost of machinery	700,000
	• Contract service	920,000
16 April 2018	Payment made to Artisan Bhd, a Malaysian resident company for engineering services	540,000
15 June 2018	Interest on loan paid to Ozhurib Bank, a Germany resident bank	220,000
17 November 2018	Payments made to Kimbuwa Ltd, a Japanese resident company for a technical advice given in Malaysia regarding the installation of machinery.	370,000
9 December 2018	Drawing fees paid to Chibi Bhd, a korean resident company and the design was done in Korea.	170,000

Requirement:

Explain whether the withholding tax provisions are applicable for each of the payment above. Whenever applicable, determine the amount of withholding tax and the due date to remit the tax to the Inland Revenue Board. (10 marks)

(Total: 20 marks)

QUESTION 4

Black Pink Partnership is a Malaysian resident company which operated in Melaka. The business partners of Black Pink are Aminah, Meymey and Devi. They commenced their business since June 2015 and the company set up their accounts to 31 December each year.

The partnership agreement until 31 December 2018 are as follows:

	Aminah RM	Memey RM	Devi RM
Capital contribution	65,000	80,000	40,000
Monthly salary	2,500	3,200	1,800
Interest on capital	5%	5%	5%
Profit sharing ratio	3	5	2

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Additional information:

a) The net profit for the year was RM219,400.
b) Company incurred an entertainment expenses for its client during the year with a total of RM8,400.
c) Depreciation for the year was RM4,700.
d) Donation made by company to an approved institution for RM3,900.
e) Capital allowance on its assets is RM20,000.
f) Devi opted for retirement on 31 October 2018 and few changes are made after the retirement:
   i. Interest on capital for the existing partners increase to 10%.
   ii. Profit sharing ratio changed to 2:3 for Aminah and Memey.

Requirement:

a) Calculate the provisional adjusted income for the partnership in 2018. (6 marks)
b) Calculate the divisible income for the partnership in 2018. (2 marks)
c) Calculate adjusted income for the partnership in 2018. (9 marks)
d) Calculate the statutory income for the partners in the YA 2018. (3 marks)

(Total: 20 marks)

QUESTION 5

PART A

Ghaba Sdn Bhd (Ghaba) assembles and distributes baby stroller. Ghaba closes its accounts on 31 December annually and the following transactions are the details relating to the Plant, Property and Equipment:

i.	Plant and machinery Ghaba acquired a new machine for RM135,000 on 12 April 2018. A further RM40,000 was incurred in respect of site preparation and cutting and levelling the land to install the machine. The machine was first used in the business on 1 July 2018.
ii.	Stroller workshop In July 2018, Ghaba constructed a small workshop for RM54,000. The workshop was immediately put to use for the repair of dysfunctional stroller (incidental activity by company's nature of business)
iii.	Factory Ghaba owns a factory building which was acquired in 2016 for RM850,000 and

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	currently its residual expenditure was RM520,000. During the year, Ghaba extending its rear factory building as a store of a retail shop. The construction was completed in November 2018 which cost RM720,000.

Requirement:

Determine the eligibility of industrial allowance (if any) and compute the capital allowance/industrial building allowance claimable by Ghaba Sdn Bhd for the above Plant, Property and Equipment for the year of assessment 2018. (10 marks)

PART B

Brainee Farm commenced its business since 1 January 2010 where they grow fruits and vegetables. The company closes its account on 31 December annually. Expenses incurred throughout year ended 31 December 2018 are as follows:

		2018
		RM
a)	Land	80,000
b)	Office	360,000
c)	Clearing land for cultivation	14,000
d)	Construction of drain	4,300
e)	Workers accommodation (located inside the farm)	185,000
h)	Replanting fruit and vegetable seedlings	3,100

Requirement:

Compute the agriculture allowances for each expenses made by Brainee Farm for the year of assessment 2018. (10 marks)

(Total: 20 marks)

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APPENDIX

The following rates and allowances are to be used in answering all questions:

Rates of Capital & Industrial Buildings Allowances for YA 2018 :

Fixed assets/ Rate	Initial Allowance	Annual allowance
Motor vehicles, Heavy machinery	20%	20%
Plant & Machinery (general)	20%	14%
Office equipment, Furniture & Fittings	20%	10%
Industrial building	10%	3%
Public roads and ancillary structures which are recoverable through toll	10%	6%

Rates of Agriculture and Forest Allowances YA 2018:

Capital expenditure incurred on:	Rate
(a) the clearing and preparation of land for the purpose of agriculture	50%
(b) the planting (but not replanting) of crops on land cleared for planting	50%
(c) the construction on a farm of roads or bridges	50%
(d) construction on a farm of a building for the welfare of persons or as living accommodation for a person employed for the working of a farm (labour quarter, temple).	20%
(e) construction of any other building (smoke house, estate office)	10%

Rates of Real Property Gains Tax: ***Effective 1st January 2014 onwards***

Real property	Malaysian Individual (Permanent resident or citizen)	Foreigners	Companies
Disposal within 3 years	30%	30%	30%
Disposal in the 4th years after the acquisition date	20%	20%	20%
Disposal in the 5th years after the acquisition date	15%	15%	15%
Disposal in the 6th years after the acquisition date or thereafter	Nil	5%	Nil%

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